

Crony Capitalism and Neoliberal Paradigm (Part II)

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Press

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This is the second and final part of Crony Capitalism and Neoliberal Paradigm, the first part was [posted earlier](#) on this very blog.

It is easy to see how almost all the European Union's Member States, as well as other western advanced economies, are facing greater social inequalities, the spread of precarious/poorly-paid job conditions, greater tax burdens on households/SMEs, stagnation or slow economic growth together with high unemployment rates and cuts in core government functions. All these factors are leading to an impoverishment of the middle classes. From this picture arises, at least, one question: Is this situation a harsh consequence of a global economic crisis, or, on the contrary, the crisis is a response to a particular type of socio-economic paradigm—commonly known as “the system”? This article, divided in two parts, aims to answer that question: part 1, concentrates on negative socio-economic effects of crony capitalism, and part 2, deals with the relationship between crony capitalism and the global neoliberalism paradigm now reigning in most countries.

It seems that the neoliberalism paradigm now reigning in most countries systematically relies on cronyism: business people use political connections to get wealth, public works are not awarded to the best-qualified applicants but to those close to political power and so on. By doing so, this *kind* of neoliberalism is breaking the free market rules which “supposedly” form the basis of the model: genuine/creative entrepreneurs/enterprises are not rewarded on the basis of their effort and skills. Globally, this is reflected in the extreme concentration of wealth into the hands of a small and influential minority—at the very top of the social pyramid—leading to sharp social and economic inequalities.

Neoliberal measures charge a greater tax rate on households and SMEs, meanwhile multinational companies and great fortunes experience less fiscal pressure—we have here one of the reasons why in many advanced economies the gap between poor and rich [is widening](#) (the concentration of income at the top of the income distribution increases inequality and decreases class mobility).

As such, several questions arise. Does neoliberalism allow class mobility? Empirically speaking, noticing the success of people related to political, economic or religious power, family's wealth and status, it seems that access to the best education and subsequently prestigious positions are a matter of wallet size and/or relationship with some kind of factor power/family's wealth and status rather than merit. If so, then is a talent crisis not a logical global consequence? How to recruit talented people without a real meritocracy? Wealthy individuals have more opportunities to study at the top universities of the world (mainly in business schools, economics, law and politics and other similar fields) than those with merit but lacking the financial means. Of course, there are scholarships and forms of financial support, but these will depend on the country we are talking about. On this particular point of mention the question should also be made about: What are the selection criteria for scholarships and how much is awarded? As a result of neoliberal measures increasing inequality, there is a lack of class mobility and, therefore, the subsequent socio-economic success is highly correlated with the above-mentioned factors.

If so, is there then a vicious circle? Obviously, the best universities and business schools in the world are going to prefer people related to power circles, because they are always going to undertake prominent roles in different parts of the world (governments, world organizations, top world companies...) but then, what about global leaders? Is a leadership without merit a true leadership? After all, those universities obtain prestige because their graduates get

the best jobs in the world.

Below, I wish to articulate a few brief thoughts about the main general characteristics of this *kind* of neoliberal paradigm.

It prioritizes pro-business policies —profits, profitability, growth, competitiveness...—over the needs of the working class; workers are *costs* not assets. Therefore, the objective becomes to increase labour productivity but paying lower wages —precarious/poorly paid-jobs, “*workfare*”. In my view, it is clear enough that European conservative and liberal politicians are trying to popularize this model. Sweatshop working conditions are good examples of this trend. Neoliberal economic globalisation considers individuals and countries as mere instruments of production and consumption targets.

Privatisations of state-owned companies: this leads to and strengthens cronyism in several ways, and often implies staff reduction, higher prices and lower quality of services. Government politicians can award public contracts or sell state-owned companies to people/entrepreneurs/enterprises close to political power on favourable terms and then be rewarded with “revolving doors” positions.

Budget [cuts on key governmental functions](#) are hitting education, research & development, health, unemployment aid (from the neoliberalism perspective some of these functions should be restricted/removed or privatized) but, at the same time, paradoxically, construction of monumental public structures and/or wasteful of public funds is taking place.

Introducing labour measures to reduce bargaining power of workers, e.g. child labour, unhealthy working conditions, are not moral problems, and these are not performed only if there is some sort of legislation to prohibit or restrict them.

The economic environment rests based on political corruption; weak democracies or dictatorships are good allies — South America’s military dictatorships in the seventies and eighties are a case in point.

Market efficiency appear to be based on [great inequalities](#), spurred by regressive tax policies and concentration of wealth. Result are less stable economies and lower rates of economic growth.

Weakening of [solidarity links](#): economic-oriented societies, profit, competitiveness, wage reductions, delocalisation and so on are fundamental axioms/postulates of the neoliberal paradigm; this is notorious, especially, in the times of crises. For example, in my view, solving humanitarian crises does not have the same priority as that granted to financial-economic crises. This kind of the neoliberal globalisation encourages egoism and individualism, uncompromising defence of self-interest over the common good.

Claims that states are not capable to implement effective measures to resolve financial-economic crises constitute a highly questionable idea; various means of mass communication are constantly used to promote [neoliberal thought and interests](#)— leading people to believe that the neoliberal paradigm is the only way to go. Therefore, those ideas contrary to such interests are frequently ridiculed. Prestigious universities are employed to spread the neoliberal dogma as a superior form of thought and socio-economic jargon. For instance, this is visible in coalitions governments (we are told that they are necessary, in order to secure economic stability, higher growth and employment), redefinition of economic and social actions (depersonalisation, people become numbers: economic and social agents following the rules of a, *globally accredited*, unique socio-economic paradigm).

A few tales and recipes from this global neoliberal model:

1. **Labour flexibility/mobility:** these are a set of measures to assist employers, for example labour contracts of an extremely short duration (even for days or hours), easy and cheap dismissal, relocations, excessive working hours, informal jobs without social security coverage. Such measures are masqueraded under the label: “*in order to be competitive and jobs creation...*”

2. **Precarious/poorly-paid jobs:** these are said to be required to increase competitiveness and job creation; **workers lose their jobs:** it is said to be the result of technological changes, lack of required skills, the company's worsening financial results. Consequently, *as the company is not at fault*, unemployment aids must be both limited in time and progressively reduced.
3. **Collapsed private banks are bailed out by taxpayers** but, paradoxically, a greater tax burden falls hardest on households/SMEs
4. **CEOs earn hundreds of times more than the average salary and even get millions in compensations** while, *as a consequence of poor management*, their companies go bankrupt — but people who question this framework are accused of class envy.
5. **New entrepreneurs** — usually operating in a subcontracting scheme are named entrepreneurs although there are in reality self-employed workers with very poor income.

As a result, *among many other consequences*, we have:

- reduction in purchasing power
- weakening of middle classes—**the socio-economic gap is widening among social classes** within the developed countries. My idea is that, globally, both in developed and in developing countries, the expected outcome is to create a middle class with a reduced purchasing power, but by achieving the middle class status its members have a sense of belonging to a group (feel successful), thus preventing social conflicts.
- reduction of social security contributions
- higher rates of unemployment
- higher rates of poverty
- inequality and social exclusion
- weaker business structures
- low democracy quality
- over-*and* under-consumption markets— worldwide consumption is concentrated around a few markets or countries, meanwhile large sections of the world's population suffering from under-consumption is a direct result of looking for cheap labour markets in which to install manufacturing capacity.
- global socio-economic imbalances—there is a notorious imbalance in real global per capita income and global consumption. Resources are limited on a global scale; therefore, we cannot reduce poverty in a sustainable manner by everyone engages in an over-consumption lifestyle. A global socio-economic model is needed, capable of equalising upwards (welfare) opportunities. Achieving that would allow the majority of the world's population to tend towards a sustainable economy, and to find a balance between openness and integration.

Finally, this very brief reflection imposes again the question:

Does neoliberalism leave any real space for the human development and for progress of nations? Is this the only (and best) way to go?

Note: This article gives the views of the author, and not the position of the Euro Crisis in the Press blog nor of the London School of Economics

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